

Message Text

PAGE 01 TAIPEI 07685 281443Z

51

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C O N F I D E N T I A L TAIPEI 7685

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SUBJECT: TAIWAN RAILWAY ELECTRIFICATION PROJECT: GRC PROPOSES TO
DIVIDE THE CONTRACTS BETWEEN GE/MK/IECO, GEC AND L.M.ERICSSON

REF TAIPEI 7415

STATE PASS EXIM BANK

HONG KONG PASS RAND EXIM

1. GOVERNOR K.H. YU OF CENTRAL BANK CALLED ON ME,
DECEMBER 27 AT 5:15 P.M. AT HIS REQUEST, TO INFORM ME
OF RECOMMENDATIONS OF CABINET COMMITTEE ON AWARD OF
CONTRACTS FOR TAIWAN RAILWAY ELECTRIFICATION PROJECT.
HE SAID COMMITTEE RECOMMENDATIONS WERE FIRM, BUT NOT
YET FORMALLY ACCEPTED BY PREMIER. HE SAID DECISION
WAS "ALMOST FINAL" ALTHOUGH PRICES NOT YET ENTIRELY
AGREED. HE SAID PUBLIC ANNOUNCEMENT OF DECISION WAS
ANTICIPATED "BEFORE JANUARY 7". HE AUTHORIZED US TO
PASS INFORMATION IN CONFIDENCE TO GENERAL ELECTRIC.

2. YU SAID THAT THE PROPOSAL OF THE "50-CYCLE CONTINENTAL
EUROPEAN GROUP" UNDOUBTEDLY REPRESENTED THE HIGHEST
QUALITY, BUT THE PRICE WAS TOO HIGH AND IT HAD BEEN RE-
JECTED IN TOTO. AS BETWEEN THE GE/MK/IECO BID AND THE
BRITISH GEC BID, HE SAID THE FINDING WAS THAT FROM AN
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PAGE 02 TAIPEI 07685 281443Z

ENGINEER*NG STAND*OINT THE BRITISH BID WAS BETTER. HE
SCRIBED THE ALLEGED BRITISH SUPERIORITY TO THE MUCH
GREATER BRITISH EXPERIENCE IN THE CONSTRUCTION AND
OPERATION OF ELECTRIC RAILWAY SYSTEMS. HE MENTIONED THE

EXCLUSIVE BRITISH RIGHTS ON PRODUCTION OF THE ESSENTIAL CATENARY SYSTEM AND IN THE PRODUCTION OF EMU CAR UNITS. HE SAID THE TAIWAN RAILWAY ADMINISTRATION (TRA) WAS ABSOLUTELY INSISTENT ON THE INCLUSION OF EMU UNITS, AND THE GE BID ON THE MAIN PART OF THE PROJECT HAD TO BE DISQUALIFIED BECAUSE GE WAS NOT ABLE TO OFFER EMU UNITS AT ALL. YU SAID THAT THE COMMITTEE WAS DEEPLY MINDFUL OF THE VERY SPECIAL AND CLOSE TIES, BOTH POLITICAL AND ECONOMIC, BETWEEN HIS GOVERNMENT AND THE UNITED STATES, AND ALSO WAS MINDFUL OF THE LARGE IMBALANCE IN THE BILATERAL U.S./ROC TRADE ACCOUNT, WHICH HAD TO BE NARROWED. THEREFORE, THE GOVERNMENT HAD MADE A SPECIAL EFFORT TO AWARD GE/MK/IECO AS LARGE A SEGMENT OF THE PROJECT AS POSSIBLE. SO A DECISION HAD BEEN MADE TO DIVIDE THE PROJECT INTO THREE SETMENTS, WITH A SUBSTANTIAL PERCENTAGE GOING TO BOTH GEC AND GE/MK/IECO. HE SAID HE HOPED THAT THIS COMPROMISE DECISION WOULD "MAKE EVERYBODY FAIRLY HAPPY". HE SUMMARIZED BY SAQNG THAT UNDER HIS COMMITTEE'S PROPOSAL THE GEC AWARD WOULD AMOUNT TO ABOUT U.S. \$80 MILLION, THE GE EVENTUALLY U.S.\$66 MILLION TO U.S.\$69 MILLION AND L.M. ERICCCSON U.S.\$16 MILLION.

3. YU BROKE DOWN THE COMMITTEE DECISION INTO THREE SEGMENTS AS FOLLOWS:

(A) SEGMENT A-CONSISTING OF CATENARY SYSTEM, TELECOMMUNICATIONS SYTEM, 45 EMU UNITS, AND 20 TO 30 LOCOMOTIVES. THIS SEGMENT TO BE AWARDED TO GEC. ESTIMATED AT ABOUT U.S. \$80 MILLION.

(B) SEGMENT B-SIGNAL EQUIPMENT FOR THE ENTIRE SYSTEM TO BE AWARDED TO L.M. ERICCCSON OF SWEDEN. TOTAL COST ESTIMATED AT U.S. \$16 MILLION. YU SAID THAT ERICCCSON IS RECOGNIZED WORLDWIDE AS SO OUTSTANDING IN THIS FIELD THAT THERE IS REALLY NO COMPETITION AND COMMITTEE FELT COMPELLED TO CHOSE ERICCCSON FOR THIS RELATIVELY SMALL PORTION OF THE PROJECT.

CONFIDENTIAL

PAGE 03 TAIPEI 07685 281443Z

(C) SEGMENT C-TRACK FOR THE ENTIRE SYSTEM. TO BE AWARDED TO GE/MK/IECO PROVIDED GE/MK/IECO REDUCES ITS BID FOR THIS SEGMENT FROM U.S.\$31 MILLION TO U.S.\$28 MILLION TO MATCH THE GEC BID. HE SAID THAT HE FELT THE COSTS OF THE AMERICAN GROUP WOULD BE NO HIGHER THAN THOSE OF THE BRITISH GROUP ON THIS PORTION OF THE PROJECT, ESPECIALLY SINCE GEC WOULD HAVE TO PROCURE THE RAILS IN CANADA IF IT WON THE BID. HE EXPRESSED THE EARNEST HOPE THAT THE AMERICAN GROUP COULD REDUCE ITS BID SO AS TO WIN THIS PORTION OF THE CONRRACT.

(D) SEPARATE AND APART FROM THE BASIC CONTRACT FOR THE PROJECT, THE COMMITTEE RECOMMENDED THAT

THE GRC AT A LATER DATE CONTRACT TO PURCHASE A MINIMUM OF 64 AND A MAXIMUM OF 74 ELECTRIC LOCOMOTIVES FROM GENERAL ELECTRIC TO SERVE THE NEW SYSTEM. HE ESTIMATED THE COST OF THESE LOCOMOTIVES AT U.S.\$38 MILLION TO U.S.\$41 MILLION. HE SAID THAT IF THE GEC GROUP ACCEPTED SEGMENT A ABOVE GIVING THEM AN ORDER FOR ONLY 20 TO 30 LOCOMOTIVES, THE GOVERNMENT WOULD THEN BE ABLE TO ENTER INTO A FIRM CONTRACT SOON AFTERWARDS FOR THE PURCHASE OF THE MUCH LARGER FLEET OF LOCOMOTIVES FROM GENERAL ELECTRIC. HE HOPED THIS WOULD BE AN IMPORTANT FAVORABLE CONSIDERATION WITH GENERAL ELECTRIC SINCE THE LOCOMOTIVES ARE THE MOST PROFITABLE PART OF THE PACKAGE. YU RECOGNIZED THAT THE BRITISH GROUP MIGHT BE DIS-SATISFIED WITH THE REDUCED NUMBER OF LOCOMOTIVES WHICH WOULD BE ORDERED FROM THEM AND MIGHT REJECT THE SEGMENT A PROPOSAL ON THAT ACCOUNT. IN THAT EVENT, ACCORDING TO YU, THE BIDDING WOULD BE THROWN OPEN ANEW ON SEGMENT A AND GE/MK/IECO WOULD HAVE A RENEWED OPPORTUNITY TO BID ON THIS MAJOR PORTIOON OF THE PROJECT.

YU TOLD ME IN SPECIAL CONFIDENCE THAT THE REDUCED NUMBER OF LOCOMOTIVES (20 TO 30) NOW INCLUDED IN SEGMENT A WOULD BE PRESENTED TO THE BRITISH AS A NECESSARY DOWNWARD REVISION OF THE EQUIPMENT WHICH THE GRC COULD AFFORD AT THE OUTSET FOR THE NEW SYSTEM. HE THOUGHT THE BRITISH MIGHT RELUCTANTLY ACCEPT THE PROPOSAL IF THEY DID NOT GET WIND OF THE FACT THAT THE GOVERNMENT

CONFIDENTIAL

PAGE 04 TAIPEI 07685 281443Z

WAS HOLDING BACK ON A LARGE FLEET OF LOCOMOTIVES WHICH SOON THEREAFTER WOULD BE PURCHASED FROM GENERAL ELECTRIC. HE SAID IT WAS VERY IMPORTANT THAT NEITHER GENERAL ELECTRIC NOR ANYONE ELSE LEAK ANY INFORMATION ABOUT THE PLAN AND HE ESPECIALLY ASKED ME TO CAUTION GENERAL ELECTRIC ON THIS POINT.

4. YU SOMEWHAT DEFENSIVELY ASKED ME IN GREAT EARNESTNESS TO STRESS THE POSITIVE ASPECTS OF THE PROPOSAL FROM THE U.S. STANDPOINT: A TOTAL AWARD TO THE AMERICAN GROUP ALMOST EQUAL TO THAT FOR GEC, PROBABLE AWARD OF THE LION'S SHARE OF THE MOST PROFITABLE IT M (LOCOMOTIVES) TO THE AMERICAN GROUP, AND THE POSSIBILITY OF A SECOND CHANCE FOR THE AMERICAN GROUP TO BID ON SEGMENT A IF GEC WALKS OUT BECAUSE OF THE REDUCTION IN THE UMBER OF LOCOMOTIVES AWARDED TO IT.

5. I DID NOT ATTEMPT TO HIDE MY DISAPPOINTMENT IN REACTING TO THIS NEWS. I TOLD GOVERNOR YU WE COULD NOT ACCEPT THE VALIDITY OF THE UNSUPPORTED STATEMENTS HE HAD OFFHANDEDLY RENDERED AS FACT IN REGARD THE ALLEGED SUPERIORITY OF THE BRITISH AND CONTINENTAL EUROPEAN SYSTEMS. WE FELT THAT WE HAD A BETTER PRODUCT, BETTER ENGINEERING AND BETTER FINANCIAL ARRANGEMENTS TO OFFER

WITH THE INVALUABLE SUPPORT OF EX-IM BANK. OUR
TRADITIONAL CLOSELY COOPERATIVE RELATIONSHIPS AND
THE GREATER CONFIDENCE THE ROC CAN HAVE IN THE UNITED
STATES SHOULD REINFORCE THE ATTRACTIVENESS OF THE
U.S. BID. I SAID I COULD NOT PREDICT HOW THE NEWS
HE BROUGHT ME WOULD BE TAKEN IN WASHINGTON OR BY THE
AMERICAN COMPANIES CONCERNED. I IMPLIED THAT I DID NOT
TAKE THE DECISION OF THE COMMITTEE AS NECESSARILY THE
LAST WORD FROM HIS GOVERNMENT. IN RESPONSE TO A DIRECT
REQUEST FROM YU, I ASSURED HIM THAT I WOULD RELAY HIS
COMMITTEE'S FINDINGS TO WASHINGTON FAIRLY AND FULLY
BRINGING OUT ALL PARTICULARS WHICH HE THOUGHT WOULD
APPEAL TO THE AMERICAN BIDDERS.

6. BACKGROUND INFO ON DEVELOPMENTS OF LAST FEW DAYS
LEADING UP TO COMMITTEE'S DECISION WILL BE TRANSMITTED SEPTTEL.

7. DEPARTMENT REQUESTED TO PASS SUBSTANCE OF FOREGOING
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PAGE 05 TAIPEI 07685 281443Z

TO HOYT STEELE, GENERAL ELECTRIC VICE PRESIDENT OF
INTERNATIONAL OPERATIONS, NEW YORK.

8. I AM QUITE PREPARED TO SEEK AN APPOINTMENT WITH
PREMIER CHIANG CHING-KUO TO REQUEST A REJECTION OF
THE COMMITTEE'S RECOMMENDATIONS IF DEPARTMENT AND COMMERCE
CONSIDER THE STAKES ARE SUFFICIENTLY GREAT TO JUSTIFY
THIS ACTION. APPOINTMENT WOULD BE DIFFICULT TO ARRANGE DURING UP-
COMING LONG HOLIDAY PERIOD, BUT HE WILL PROBABLY SEE ME ON MY
URGENT REQUEST IF HE
REMAINS IN THE CITY. WE UNDERSTAND COMMITTEE'S
RECOMMENDATIONS WILL BE PRESENTED TO FULL CABINET
FOR ACTION ON JANUARY 3. IT MIGHT BE PREFERABLE TO
DO WHAT WE CAN HERE AT CABINET AND SUB-CABINET LEVEL
BETWEEN NOW AND JANUARY 3, RESERVING POSSIBILITY OF
APPROACH TO PREMIER FOR LATTER PART OF NEXT WEEK IF DECISION
OF FULL CABINET ON JANUARY 3 SHOULD BE ADVERSE.
MCCONAUGHY

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<< END OF DOCUMENT >>

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